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EMILIA DI SANTO, REPUBLICAN STAFF DIRECTOR

## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

March 6, 2002

BY FACSIMILE (202/205- )  
ORIGINAL BY U.S. MAIL

The Honorable Hector V. Barreto  
Administrator  
Small Business Administration  
409 Third Street, SW  
Washington, DC 20416

Dear Mr. Barreto:

The purpose of this letter is to bring you up to date with the Committee on Small Business and Entrepreneurship's (Committee) efforts to work with the Small Business Administration (SBA) towards the goal of building a new Loan Monitoring Systems (LMS). Since 1997, the SBA has been undertaking the development of a computer system to monitor all aspects of the various loan programs at SBA. Congress has appropriated \$8 million each year for the specific purpose of building a system that would allow SBA to more effectively manage its loan portfolio.

In 1996, Congress recognized that there was a substantial risk to the Government due to the poor and inadequate loan oversight structure at SBA. As part of the Small Business Administration Reauthorization Act of 1997, Congress mandated that the SBA complete eight planning steps to ensure that all necessary planning was conducted prior to the implementation of the system. In addition, Congress required that the General Accounting Office (GAO) report on the progress that SBA was making towards complying with the mandated planning steps.

Since that time, this initiative has been plagued with, among other things, serious missteps. For example, some of the funds appropriated for LMS were redirected by the previous administration to initiatives unrelated to the LMS. Similarly, the previous administration, despite the shortage of available resources within the agency, elected to begin a broad and sweeping systems modernization initiative that was expected to cost in excess of \$100 million. This amount far exceeded the initial estimated cost of \$32 million. Now after the passage of four years and the expenditure of millions of taxpayers dollars, the SBA has yet to build an operational Loan Monitoring System.

Throughout this four year period, the Committee has used its best efforts to be supportive of the SBA's efforts. The Committee continues to recognize that this system is complex and requires detailed planning and that in many respects from all signs, the SBA is unprepared to deal with such a complex development. In the past, the

information the SBA provided to the GAO, my staff and me has frequently been incomplete and, on some occasions, misleading. Obviously, these past practices are unacceptable.

Unfortunately, your administration inherited a debacle. Nevertheless, I remain deeply concerned not only about the LMS; but also about other aspects of the original Systems Modernization Initiative that is still under development. Specifically, the previous administration chose to develop a new accounting system (The Joint Accounting And Management System - JAAMS) at a cost of \$5 million with \$1.5 million, and possibly more, in annual operational costs. This option was selected, although the National Business Center at the Department of the Interior offered to fulfill SBA's accounting needs at substantially less cost.

Meanwhile, the SBA staff working on the LMS continues to do a marginal job at completing the mandated planning steps set forth as law in the 1997 Reauthorization Act. GAO has repeatedly informed both the authorizing Committees and the SBA that the planning work was insufficient and lacking in detail to satisfy the eight statutorily mandated planning steps. In response, the previous administration began a series of "prototype" systems developments. The GAO and Committee staff repeatedly expressed their concern that these prototypes were being used as a vehicle to side-step the eight mandated planning steps and that given the size and complexity of the system, the prototypes were an inherently wasteful use of limited resources. In recent months, the GAO reported to the Committee and to the SBA that these systems were in fact being used as production systems and that they had in fact violated the terms and spirit of the 1997 Reauthorization Act.

In response to the concerns that the Committee raised with the SBA, I am pleased to see that the SBA initiated steps to produce a more effective systems architecture. The decisions to bring the Office of Lender Oversight into the decision making process at a higher level and to retain the KPMG consulting firm to provide strategic management advice appear to be reasonable steps toward completion of the planning process. Similarly, the decision to focus on the core LMS system will substantially increase the likelihood that the system will be built in a timely manner.

The challenges that you and your staff face because of earlier decisions made by others are significant. At the same time, I am hopeful that with effective leadership from you, the SBA will ultimately succeed in building a viable system. A system that can provide both the SBA and Congress with needed information to ensure that the taxpayers money is being efficiently and effectively used.

To assist both the Committee and the SBA I have written to the Comptroller General, David Walker, and requested two separate but related studies. The first is to advise the Committee on the SBA's budget and spending plans for Fiscal Years 2002 and 2003 as they relate to the LMS. Secondly, I have requested the GAO to take a detailed look at the other systems development initiatives by the SBA and to report on the impact that these initiatives have and are having on the LMS. In addition, the GAO will

The Honorable Hector Barreto  
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continue their existing mandated reporting on SBA's compliance with the eight planning steps. The information that the Committee gets from the GAO requests is particularly important, as we assess the SBA's funding proposals.

The work you have done so far provides me with the first glimmer of hope that this critical system will finally be built just as Congress first directed in P.L. 104-208 (approved September 30, 1996). To achieve this result, I know the SBA will not repeat the mistakes of the previous administration and that you and your staff will continue to be forthcoming in providing all the relevant information to the GAO and to the Committee.

Should you have any questions regarding this letter, please do not hesitate to contact Paul Conlon or Paul Cooksey at 202/224- . Thank you in advance for your continued assistance in helping America's small businesses.

Sincerely,



Christopher S. Bond  
Ranking Member

enclosure

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WASHINGTON, DC 20510-6350

March 6, 2002

The Honorable David M. Walker  
Comptroller General  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Walker:

Beginning in fiscal year 1998, the Congress has provided about \$32 million to support the Small Business Administration (SBA) in planning and developing a loan monitoring system (LMS) that was intended to supply capabilities needed manage its \$45 billion loan portfolio and provide oversight of lenders which execute its loan programs. However, not all the appropriated funds have been used for the LMS project -- some were diverted to other systems development efforts, others were used for unrelated program activities, and over \$16 million was placed in a Federal Systems Integration and Management Center (FEDSIM) account and held for future contract efforts. In addition, the SBA has not yet completed the LMS planning actions mandated by the Small Business Reauthorization Act of 1997.

During the last three years, GAO has supported the legislative oversight of this project through its testimonies and numerous products that highlighted the shortfalls in SBA's management and execution of the LMS project. I would like your continuing assistance in the oversight of this important project. Specifically, I request that the GAO evaluate the SBA's spending plan for FY 2002 to determine if it addressed critical activities for completing the planning and developing a system for risk management and lender oversight. Additionally, I request that the GAO analyze the SBA's budget request for FY 2003 to determine if it is consistent with current plans.

As the GAO's efforts on this request proceed, please keep my staff advised on your progress on a regular basis. If your staff have any questions, please have them contact Paul Conlon or Paul Cooksey of my staff at 202/224-

Sincerely,



Christopher S. Bond  
Ranking Member

cc: Joel Willemsen